

BIOCOM  
Building Owners and Managers  
Association  
Building Industry Association  
California Restaurant Association, San  
Diego Chapter  
Gen-Probe Incorporated  
Industrial Environmental Association  
National Association of Industrial and  
Office Properties  
San Diego Association of Realtors

San Diego County Hotel Motel  
Association  
San Diego Regional Economic  
Development Corporation  
San Diego Lodging Industry  
Association  
San Diego Regional Chamber of  
Commerce  
TechAmerica San Diego  
Qualcomm  
Westfield, LLC

August 31, 2009

The Honorable Todd Gloria  
Chair, Land Use and Housing Commission  
City of San Diego  
202 C Street, 10th Floor  
San Diego, CA 92101

RE: Performance Audit of the San Diego Housing Commission

Dear Chairman Gloria and Members of the Land Use and Housing Committee:

We are writing to you as a coalition in support of jobs and economic development in San Diego. We have reviewed the Performance Audit of the San Diego Housing Commission and have comments and concerns about the findings and recommendations in both Part I and Part II of the report.

In general, our coalition has opposed the levying of sector specific fees. Linkage fees are one such fee that has a dubious history in terms of its justification and legal nexus. This has been debated, and our coalition is not seeking to have the current fee schedule eliminated; however, it should be noted that even at its current level, the linkage fee is an economic inhibitor to the City of San Diego and puts the city at a competitive disadvantage both here regionally, and nationally.

When the fee was first proposed, it was among several options to help provide affordable housing that the city council considered. Only two of those options have ever been levied, one being the linkage fee, the other being the inclusionary housing policy. No other broad-based funding measures have ever been given serious consideration, despite the fact that they would provide far more revenue and, therefore, far more housing units to help address the affordable housing issues in this region.

Our coalition believes that as the only group DIRECTLY paying fees for the provision of affordable housing, we already contribute our fair share and, if the City Council deems affordable housing a priority and additional funding is necessary, the council should look for resources on a broad based level. This would assure that adequate funds are being generated in a fair and equitable manner, rather than the current system of targeting a sub-set of the city's residents, specifically the businesses creating new jobs in the City.

We offer the following specific comments on the audit's findings:

## PART I

Part I of the Audit focused on the Housing Commission (HC) and its administrative functions and revealed several areas of concern, including: excessive time delays in the approval process, delays in housing projects, delays and inconsistencies in the board appointment process, disposition of \$2 million in relocation assistance funds, inadequate succession planning for executive management services personnel, poor organization of personnel records, lack of personnel policy compliance, inconsistent performance evaluation criteria, inconsistencies with City practices regarding auto allowances, numerous Community Development Block Grant (CDGB) discrepancies, and inconsistencies for public housing disposition tenants.

While our organizations do not wish to agree or disagree with the specifics of these findings, we have long been concerned about the actual cost per unit of providing affordable housing through the HC, as well as the time it takes the HC to produce actual units on the ground. This cost per unit, in fact, is higher than that of the private and non-profit sectors, and the cost and time to market challenges appear to be key inhibitors in the adequate provision of housing for this sub-segment of the population.

We believe that the council should direct the HC to report back with ways to address and benchmark these issues. Before any increase in revenues is considered let alone adopted, the credibility and trust in HC operations must be assured.

## PART II

Part II of the Audit focuses on several defective HC operations, particularly those regarding the Housing Trust Fund Commercial Linkage Fee. We are primarily concerned with some of the recommendations, including the response to the recommendations by the HC, as included in the audit report.

One of the key underpinnings for the findings of the need for a linkage fee increase is the use of the "Index of the Cost Indices for Twenty Cities" published by M.C. McGraw-Hill, Inc., as well as the Auditor's own assessment of California cities. Our coalition believes the Auditor's "Comparable Cities" analysis is inherently flawed, and fails to incorporate some important facts.

For example:

- The vast majority of cities in California have no linkage fees whatsoever; a valid study of comparable cities would include some of the many large California cities (i.e. San Jose, Long Beach, Fresno, Santa Ana, etc.) that charge no linkage fees at all.
- The City of Oakland, one of only three cities cited by the Auditor's report as "comparable", specifically **removed** linkage fees on retail, hotel, and research-development facilities, recognizing that it was inhibiting this kind of development, which they wanted to see increased in their city boundaries.
- The City of Los Angeles, used as a comparable city, does not apply its linkage fee citywide. In fact, it applies it to **less than one percent** of the city's land area within only one small Specific Plan area. Everywhere else in Los Angeles, the Linkage Fee is zero.
- No other jurisdictions in the County of San Diego, including the County, levy a linkage fee, again putting the City of San Diego at a competitive disadvantage, particularly in this down market. The City should be trying to attract commercial development at this time, not pushing it out toward the other cities in San Diego County.

While one could argue that the City has failed to follow SD Municipal Code Section (SDMC) §98.0618, it does not mean that the fee should be increased and indexed for automatic increases in the future. The linkage fee is an economic disincentive in the City of San Diego. In 1996, the fee, as adopted, was reduced by half, as the audit notes, in recognition that it had a negative impact on job generation in the City of San Diego. Since then, past efforts have been made by the HC, among others, to justify increasing the linkage fee. None of those efforts have been approved, in large part due to the understanding that it has negative impact on job creation and the tax base of the City.

Given the current economic environment, there is absolutely no reasonable justification for even looking at increasing the fee. The latest data released by the Construction Industry Research Board reveal that the city's non-residential construction activity is at historic lows and is off by more than \$380 million compared to one year ago. This represents a more than 50% decrease in nonresidential construction - the very economic segment that is targeted by the linkage fee.

**It is for these reasons that we believe that the City Council should direct staff to:**

- **Address the findings by the auditor relative to the municipal code issue by drafting the findings necessary to indicate that the council believes any fee increase is not warranted or feasible at this time.**

- **Additionally, given the highly cyclical nature of the economy, we believe that the municipal code should be changed to not allow for auto-pilot fee increases. The HC can seek a fee increase at any time and the Council already has the authority to increase the fee by a majority vote should it be warranted, so this provision is unnecessary.**
- **Finally, we believe the City Council should request the Auditor revise its flawed “Comparable Cities” analysis and examine linkage fees in:**
  - **a) The top 20 cities by population in California, and**
  - **b) All cities in San Diego County, before adopting Part II of the Auditor’s Report.**

In closing, we respectfully request that you provide clear direction to the HC to address the sections of the audit dealing with their internal operations and to not consider or proceed with review and drafting of any materials that would bring a linkage fee increase back for further consideration.

Sincerely,

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